

QUALIFIED ZONE ACADEMY BOND (QZAB) ALLOCATIONS & AWARD CRITERIA

Updated: April 2006

Frequently Asked Questions

What is the Qualified Zone Academy Bond Program?

In 1997, Congress created the Qualified Zone Academy Bond Program (QZAB) so that schools could raise funds to: 1) renovate and repair buildings; 2) invest in equipment and current technology; 3) develop challenging curricula; and 4) train quality teachers.

What is a Qualified Zone Academy?

Qualified zone academies are public schools located in economically distressed areas that work with private entities to enhance curriculum, increase graduation and employment rates, and better prepare students for higher education and for the workforce.

How does the QZAB work?

School divisions (through the local governments) borrow funds from financing institutions at low interest. Instead of receiving interest on the funds, a financing institution receives a tax credit in lieu of interest that they would have charged. The credit rate for QZABs is set by the federal government through the Treasury Department. (See <http://www.publicdebt.treas.gov/QZ/QzabServlet> for current rate information.)

In order to issue a QZAB, school divisions must secure a private contribution equal to at least 10 percent of the QZAB issuance. This private contribution can be in the following forms: 1) cash; 2) goods (including equipment and technology); 3) services, including assistance with the use of technology or with curriculum development; and 4) internships, field trips, or other education opportunities.

How much has Virginia been allocated in QZAB authority?

Each state is provided with an allocation using a formula based on state percentages of the national population of individuals with incomes below the poverty line. States have the flexibility to determine how the allocations will be distributed, so long as each school benefiting from a QZAB is either located in a federal Empowerment Zone or Enterprise Community *or* at least 35 percent of its students are eligible for free or reduced price lunches. Each school or school division must also procure a private entity contribution greater than or equal to 10 percent of the QZAB proceeds at the time of issuance.

In Virginia, QZAB awards are made by the Secretary of Education based upon a ranking of division-level free lunch factors. The Virginia program does not recognize reduced-priced lunch factors when determining awards. Consequently, QZABs are issued only for schools with 35 percent or greater *free-lunch* eligibility. Awards are made to Virginia school divisions based on a minimum allocation of \$1 million per division, until an award cap of \$5 million is reached. As of March 2006, Virginia has received more than \$58 million in QZAB allocations.

How are school divisions informed of QZAB awards?

The Secretary of Education will provide correspondence to the superintendent of each school division eligible for an award based on free-lunch eligibility ranking. Award information is provided to school divisions throughout the year, depending upon the timing of federal awards and whether or not unused allocations of existing Virginia awards are available.

What steps should a school division take once an award has been received?

Every school division receiving notification of a QZAB allocation is required to respond to the Secretary of Education in writing stating its intent to participate or not.

Please note that any school division that intends to participate in the Virginia QZAB program should seek legal advice from bond counsel because of the complexity of the program and its eligibility requirements.

School divisions choosing to participate in the program must submit an application package to the Secretary of Education after submitting their letter of intent to participate.

VIRGINIA GUIDELINES

SECTION I – DEFINITIONS

Private Entity Qualified Contribution

A written agreement between a qualified zone academy and one or more business(es) or private entities under which the contributor pledges a contribution having a present value of at least 10 percent of the gross proceeds of the QZAB. For this purpose the following list constitutes eligible contributions:

- Equipment for use in the qualified zone academy (including state-of-the-art technology and vocational equipment),
- Technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom,
- Services of employees as volunteer mentors,
- Internships, field trips, or other educational opportunities outside the academy for students, or
- Any other property (including cash) or services specified by the local education agency.
- Additional information on private entity qualified contributions can be found on the QZAB web page at: <http://www.qzab.org/>

Qualified Buyer

A financial institution(s) that is willing to hold QZAB bonds issued by a school division.

Qualified Purpose

- Rehabilitating or repairing a public school facility in which a qualified zone academy is established;
- Providing equipment for use at a qualified zone academy;
- Developing course materials for education to be provided at a qualified zone academy; and
- Training teachers and other school personnel in a qualified zone academy.

Qualified Zone Academy

A qualified zone academy is defined as any public school (or academic program within a public school) which is established by and operated under the supervision of an eligible local education agency to provide education or training below the postsecondary level if:

- The school is designed in cooperation with private business to improve the academic curriculum, enhance graduation and employment rates, and better prepare students for college and the workforce.
- Students of the school are subject to the same academic standards and assessments as other students educated by the local education agency.
- The school's comprehensive education plan is approved by the local education agency.
- The school is located in either a federal empowerment zone or a federal enterprise community, or there is a reasonable expectation when the bonds are issued that at least 35 percent of the school's

students (or program participants) will be eligible for free lunch under the school lunch program established pursuant to the National School Lunch Act.

Qualified Zone Academy Bond (QZAB)

A bond that is issued by a state or local government for the area where the qualified zone academy is located. The bond must meet all of the following requirements:

The issuer:

- a. Designates the bond issue for the use of a qualified zone academy;
- b. Has written assurances that a private business contribution requirement will be met; and
- c. Has written approval for the bond issue from the local education agency.

At least 95 percent of the proceeds from the bond issue are to be used to accomplish any of the following for the qualified zone academy:

- a. Rehabilitating or repairing the public school facility in which the academy is established;
- b. Provide equipment for use at an academy;
- c. Developing course materials for education to be provided at an academy; or
- d. Training teachers and other school personnel in an academy.

The term of each bond cannot exceed a maximum term. The maximum term is set so that the state or local government's obligation to repay in present value terms will be 50 percent of the borrowed amount. Please see [section 1397E of the Internal Revenue Code](#) for more information.

SECTION II - PROGRAM DESCRIPTION

In 1997, Congress created the Qualified Zone Academy Bond to help schools raise funds to achieve the following: (1) renovate and repair buildings; (2) invest in equipment and up-to-date technology; (3) develop challenging curricula; and (4) train quality teachers. The QZAB program is designed to assist school divisions serving low-income students by reducing the burden of interest payments by giving financial institutions holding the bonds a tax credit in lieu of interest. A school division must still pay back the amount of money that is initially borrowed, but the school division does not have to pay any interest, or pays low interest.

The federal government provides each state with an allotment from of principal bond proceeds that may be borrowed through the QZAB program. The Secretary of Education determines which school divisions will receive awards. The following table provides information on total awards for the Commonwealth of Virginia:

Calendar Year	Virginia Allocation	Expiration
1998	8,188,000	Dec. 31, 2001
1999	9,051,000	Dec. 31, 2002
2000	6,395,000	Dec. 31, 2002
2001	6,288,000	Dec. 31, 2003
2002	6,391,000	Dec. 31, 2004
2003	6,462,000	Dec. 31, 2005
2004	7,683,000	Dec. 31, 2006
2005	7,818,000	Dec. 31, 2007

Once awards are made to school divisions, the school division must obtain commitments from private entities for qualified contributions with a present value (as of the bond issue date) of not less than 10 percent of the proceeds of the bond issue. The proceeds from the bond issue can only be used for schools that fall under the definition of a qualified zone academy.

SECTION III - AWARD PARAMETERS

Consistent with federal regulations, the Appropriation Act (Chapter 951, 2005 Acts of Assembly, Item 135, Part B), states the following:

The Secretary of Education is hereby authorized to make allocations to qualified zone academies of the portion of the national zone academy bond limitation amount to be allocated annually to the Commonwealth of Virginia pursuant to Section 1397E of the Internal Revenue Code of 1986, as amended, and to provide for carryovers of any unused limitation amount. In making such allocations, the Secretary of Education is directed to give priority to allocation requests for qualified zone academies having at least 35 percent free lunch participation or either located in federal enterprise communities or located in cities and counties within which federal enterprise communities are located.

Current policy allows school divisions to use allocation awards for any qualifying school, which is defined as any school with 35 percent or greater free lunch eligibility. If a school division is located in a federal enterprise zone, then a QZAB allocation may be used for any school, regardless of the free lunch eligibility factors. (At the present time, the following Virginia school divisions are located in federal enterprise communities: (1) Accomack County; and (2) Northampton County.) Empowerment and enterprise zone information is available through the following link:
<http://www.ezec.gov/Communit/ruralezec.html>.

QZAB awards to school divisions are based on a ranked-order of each school division's free lunch eligibility. School divisions receiving an award are permitted to use the QZAB allocation for any school with 35 percent or greater free lunch eligibility (or at any school located in a federal enterprise community).

Any school division receiving an award must notify the Secretary of Education in writing of its intent to issue QZAB bonds. A deadline for notification will be included in the award letters received by school divisions. Any school division receiving an award letter from the Secretary's Office must be prepared to issue QZAB bonds within the calendar year of the award notification. If a school division is unable to meet this time line, then its award for that calendar year will be reallocated. The school division will continue to remain eligible for future awards, until the state QZAB issuance cap is reached or the division-wide free lunch eligibility factor for the division falls below 35 percent.

SECTION IV - APPLICATION PROCESS

The Secretary of Education will determine the award amount for eligible school divisions. These school divisions will be notified in writing of their allocation amounts. School divisions will then be required to notify the Secretary's office of their intent to participate.

If a school division declines its allocation, then another school division will be selected for an award. However, the school division declining the allocation will continue to be eligible for future awards, until the state QZAB issuance cap is reached. If a school division indicates that it intends to participate in the

QZAB program, then it will be required to submit an application package to the Secretary of Education, which includes a time line for the issuance of bonds by December 31 of the calendar year in which the award is made. Should circumstances arise where a school division indicates its intent to participate but later finds that it cannot issue QZABs within the December 31 time frame, the affected school division must notify the Secretary of Education as soon as possible, so that the allocation can be provided to another eligible school division. The affected school division will continue to be eligible for future awards, until the state QZAB issuance cap is reached or it no longer qualifies based on its free lunch rate.

SECTION V – APPLICATION TIMELINE

- **December 31, 2006:**

Expiration deadline for issuance of 2004 bonds

- **December 31, 2007:**

Expiration deadline for issuance of 2005 bonds